Sicily Bulk Petroleum Support

Information on How DESC Will Provide Bulk Petroleum Products During the Repair of the NATO Depot at San Cusumano

April 2004

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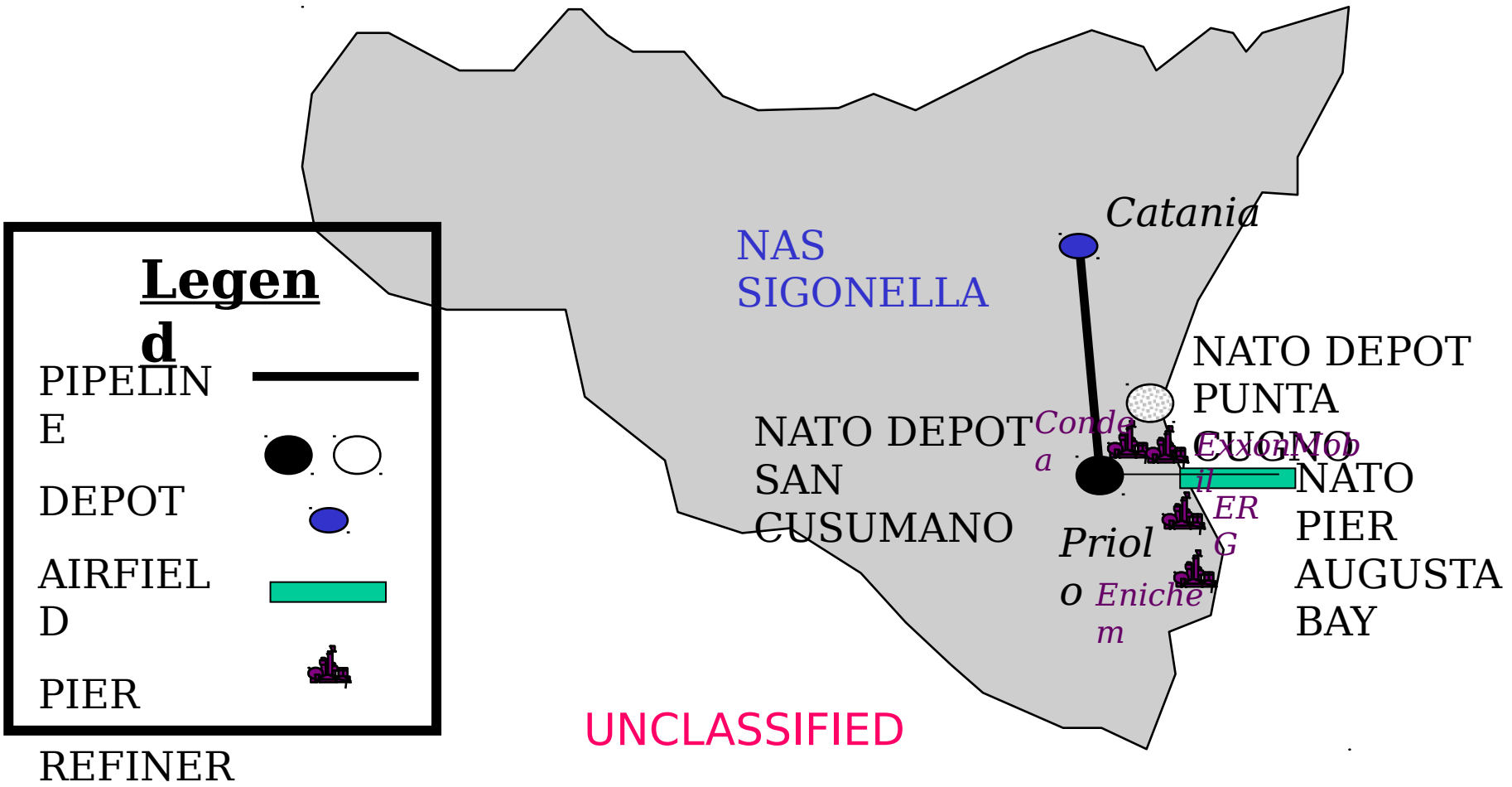
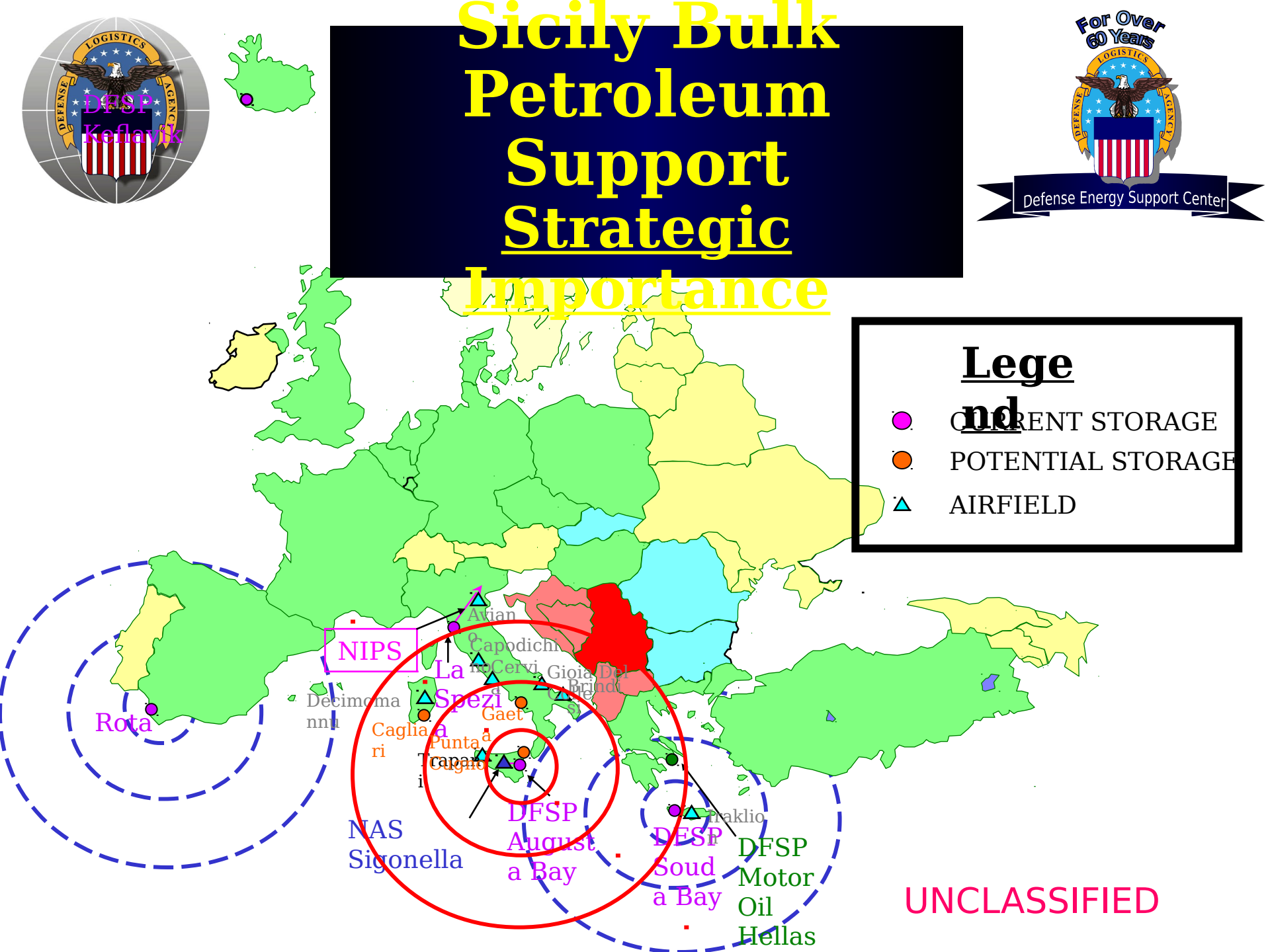
Sicily Bulk Petroleum Support Key Locations



Sicily Bulk Petroleum Support Strategic Importance



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Sicily Bulk Petroleum Support

Background (1999)

- Closure of San Cusumano facility viewed as imminent
  - DESC team deployed to develop alternatives (Jan 99)
  - Part of team deployed again to define/implement first step-'flyover' to permit ESSO to bypass San Cusumano to go directly to NAS Sigonella (Feb 99)
- Italian Navy operates San Cusumano facility
  - They indicated that *entire facility* would be closed to repair pipelines
  - Also indicated that a future NATO project would need to be done to repair tank linings.
- Augusta Bay pipeline repair project funded by NATO (Oct 99)
- DESC issued solicitation for JP5 and F76 storage in Sicily (Oct 99)
- 'Flyaround' completed (Nov 99)

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Sicily Bulk Petroleum Support Background (2000)

- No offers received for either JP5 or F76 storage solicitation
  - DESC team attempted to persuade companies to bid in formal presentations made during Jan 00 trip
  - Found that formation of Joint Venture (Esso, Agip) delayed commercial bids and alternatives
- Option of using NATO depot at Punta Cugno
  - Based on examination of this facility during Jan 00 trip
  - Contingent upon construction of commercial pier extension at that location and new agreement
- Italian Navy agreed during Jan 00 trip to delay repair project until late 00 to allow DESC to develop commercial or other alternative

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Sicily Bulk Petroleum Support Background (2001-2003)

- Punta Cugno NATO Depot option
  - Jan 01 trip confirmed availability of at least one group of tanks at NATO depot Punta Cugno suitable for storage of JP5 or F76
  - Commercial (Alpha) pier connection to facility completed
    - Draft will support DESC ocean tankers
    - USN conditionally willing to send oilers to this facility
- NATO project for repair of storage liners at San Cusumano funded
  - Combined with San Cusumano pipeline repair project
  - ***Phased construction approach approved***
- Joint Venture dissolved by Italian Government
- AGIP refinery sold to ERG

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Sicily Bulk Petroleum Support Current Status (2004)

- DESC will negotiate sole-source product contract with ESSO at Priolo to include (but not limited to):
  - Supply of JP5 to San Cusumano
  - Cost of additional tankage required to permit direct pump to NAS Sigonella
  - Cost of engineering evaluation of potential rehabilitation or connection to Punta Cugno Group II storage
- The current plan for Sicily bulk petroleum support during San Cusumano repair:
  - NAS Sigonella JP5: Direct pump from San Cusumano or ESSO
  - Fleet JP5: Receipt at NATO pier from San Cusumano or receipt at Punta Cugno pier from DESC stocks
  - Fleet F76: Receipt at NATO pier from San Cusumano or receipt at Punta Cugno pier from Italian Navy Stocks

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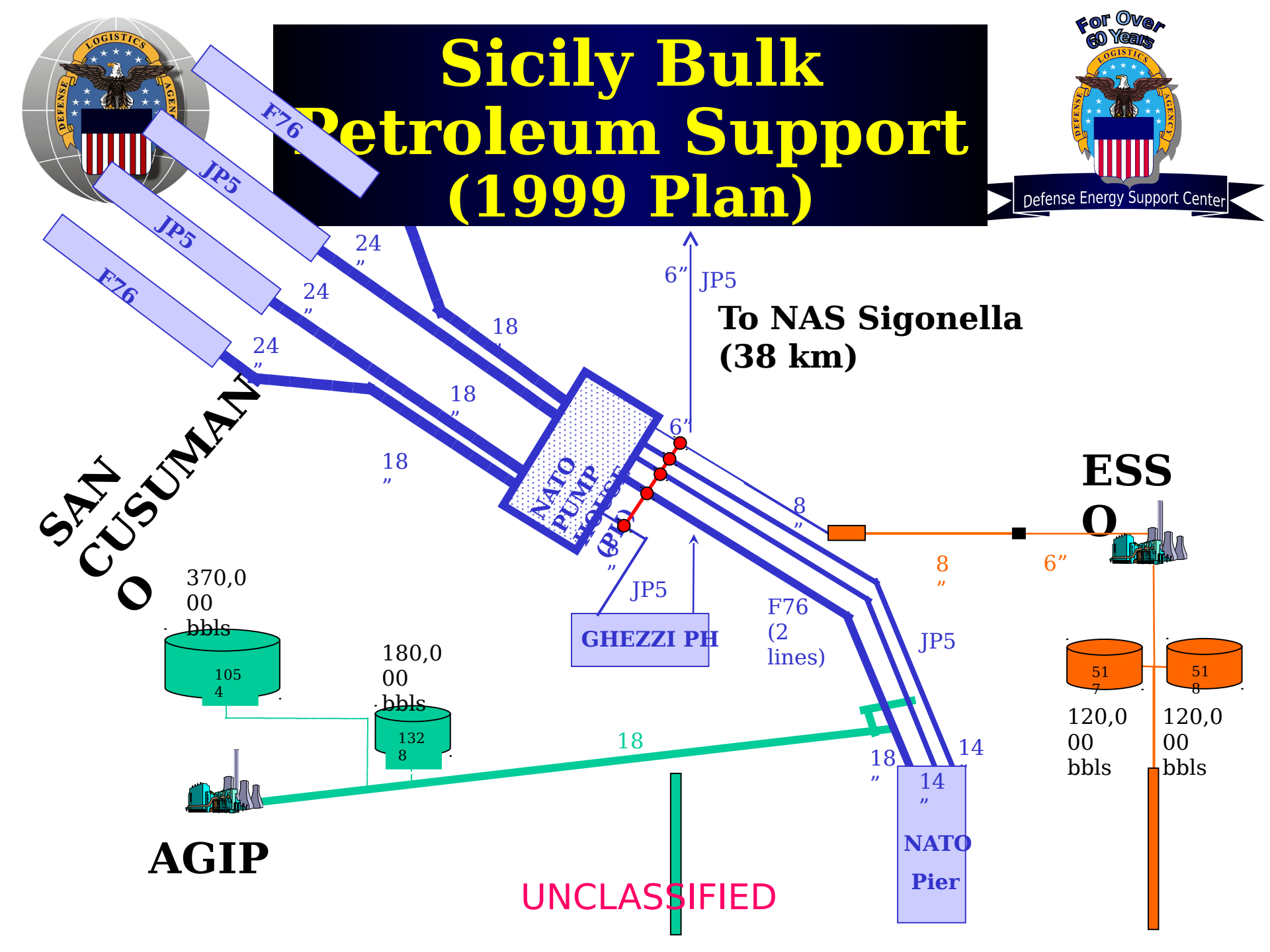
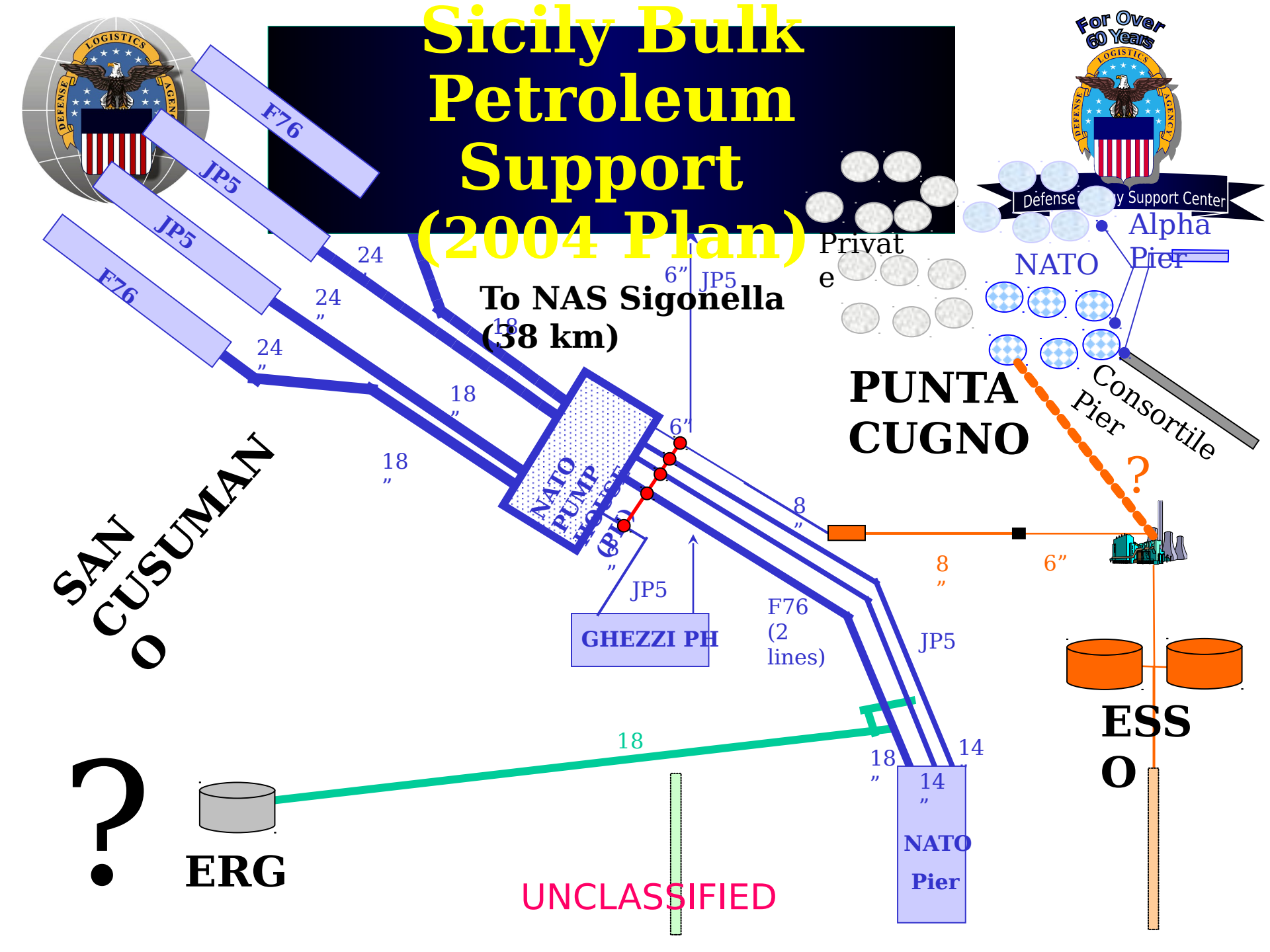
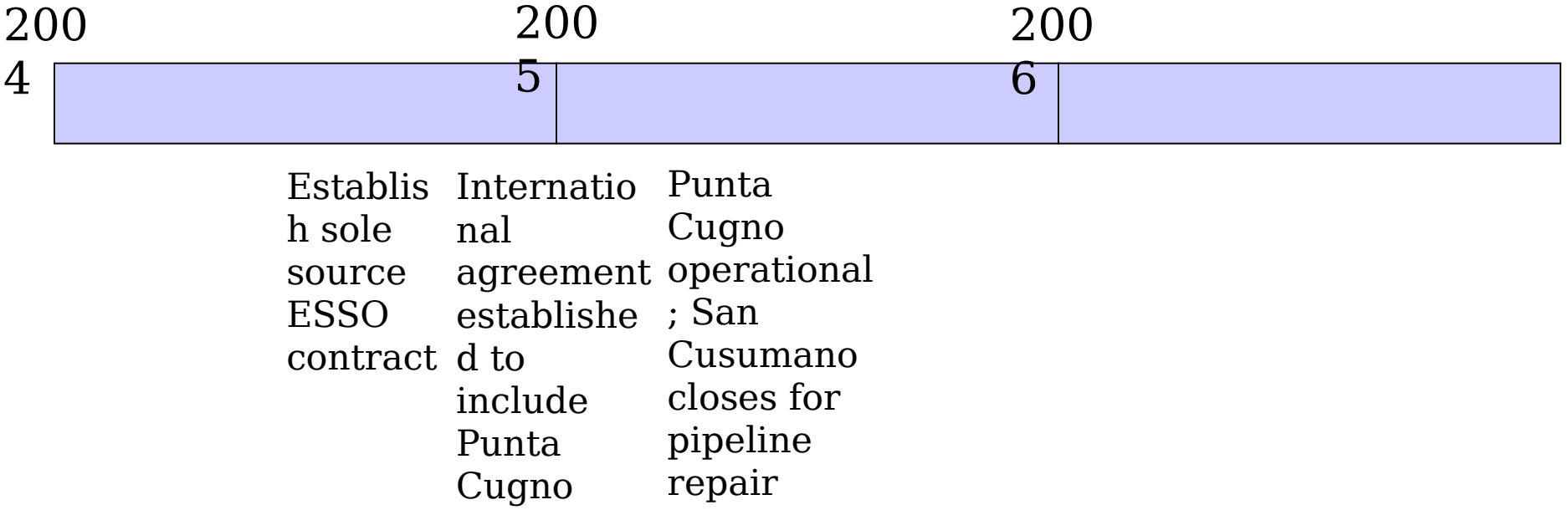
Sicily Bulk Petroleum Support (1999 Plan)



Sicily Bulk Petroleum Support (2004 Plan)



Sicily Bulk Petroleum Support Timeline


2004
2005
2006
Establish sole source ESSO contract
International agreement established to include Punta Cugno
Punta Cugno operational; San Cusumano closes for pipeline repair

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AUGUSTA BAY FUEL SUPPLY
Future

- San Cusumano will eventually be repaired and in full service, and DESC plans to resume current product mix of JP5 and F76 stored there in order to support fleet customers
- Punta Cugno
  - Plans for NATO ‘pre-financed’ package to build pipeline connection to Ghezzi pumphouse (on to NAS Sigonella)
  - If this happens, Punta Cugno Group II would be converted to JP8 storage for support of NAS Sigonella
  - If this does not happen, Punta Cugno Group II would continue in JP5 storage and no JP5 stored in Cagliari

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